

House Study Bill 776

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON VAN FOSSEN)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the policy and technical administration of the
2 tax and related laws by the department of revenue, including
3 administration of and tax exemptions under the income, sales,
4 use, and property taxes, updating the streamlined sales and
5 use tax, and including effective and retroactive applicability
6 date provisions.
7 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
8 TLSB 6655HC 81
9 mg/cf/24

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1 1 DIVISION I
1 2 TAX ADMINISTRATION AND POLICY
1 3 Section 1. Section 15E.193B, subsection 8, unnumbered
1 4 paragraph 1, Code Supplement 2005, is amended to read as
1 5 follows:
1 6 The amount of the tax credits determined pursuant to
1 7 subsection 6, paragraph "a", for each project shall be
1 8 approved by the department of economic development. The
1 9 department shall utilize the financial information required to
1 10 be provided under subsection 5, paragraph "e", to determine
1 11 the tax credits allowed for each project. In determining the
1 12 amount of tax credits to be allowed for a project, the
1 13 department shall not include the portion of the project cost
1 14 financed through federal, state, and local government tax
1 15 credits, grants, and forgivable loans. Upon approving the
1 16 amount of the tax credit, the department of economic
1 17 development shall issue a tax credit certificate to the
1 18 eligible housing business except when low-income housing tax
1 19 credits authorized under section 42 of the Internal Revenue
1 20 Code are used to assist in the financing of the housing
1 21 development in which case the tax credit certificate may be
1 22 issued to a partner if the business is a partnership, a
1 23 shareholder if the business is an S corporation, or a member
1 24 if the business is a limited liability company in the amounts
1 25 designated by the eligible partnership, S corporation, or
1 26 limited liability company. An eligible housing business or
1 27 the designated partner if the business is a partnership,
1 28 designated shareholder if the business is an S corporation, or
1 29 designated member if the business is a limited liability
1 30 company, or transferee shall not claim the tax credit unless a
1 31 tax credit certificate issued by the department of economic
1 32 development is attached to the taxpayer's return for the tax
1 33 year for which the tax credit is claimed. The tax credit
1 34 certificate shall contain the taxpayer's name, address, tax
1 35 identification number, the amount of the tax credit, and other
2 1 information required by the department of revenue. The tax
2 2 credit certificate shall be transferable if the housing
2 3 development is located in a brownfield site as defined in
2 4 section 15.291, if the housing development is located in a
2 5 blighted area as defined in section 403.17, or if low-income
2 6 housing tax credits authorized under section 42 of the
2 7 Internal Revenue Code are used to assist in the financing of
2 8 the housing development. Not more than three million dollars
2 9 worth of tax credits for housing developments that are located
2 10 in a brownfield site as defined in section 15.291 or housing
2 11 developments located in a blighted area as defined in section
2 12 403.17 shall be transferred in one calendar year. The three
2 13 million dollar annual limit does not apply to tax credits
2 14 awarded to an eligible housing business having low-income

2 15 housing tax credits authorized under section 42 of the
2 16 Internal Revenue Code to assist in the financing of the
2 17 housing development. The department may approve an
2 18 application for tax credit certificates for transfer from an
2 19 eligible housing business located in a brownfield site as
2 20 defined in section 15.291 or in a blighted area as defined in
2 21 section 403.17 that would result in the issuance of more than
2 22 three million dollars of tax credit certificates for transfer
2 23 provided the department, through negotiation with the eligible
2 24 business, allocates those tax credit certificates for transfer
2 25 over more than one calendar year. The department shall not
2 26 ~~issue~~ approve more than one million five hundred thousand
2 27 dollars in tax credit certificates for transfer to any one
2 28 eligible housing business located in a brownfield site as
2 29 defined in section 15.291 or in a blighted area as defined in
2 30 section 403.17 in a calendar year. If three million dollars
2 31 in tax credit certificates for transfer have not been issued
2 32 at the end of a calendar year, the remaining tax credit
2 33 certificates for transfer may be issued in advance to an
2 34 eligible housing business scheduled to receive a tax credit
2 35 certificate for transfer in a later calendar year. Any time
3 1 the department ~~issues~~ approves a tax credit certificate for
3 2 transfer which has not been allocated at the end of a calendar
3 3 year, the department may prorate the remaining certificates to
3 4 more than one eligible applicant. If the entire three million
3 5 dollars of tax credit certificates for transfer is not issued
3 6 in a given calendar year, the remaining amount may be carried
3 7 over to a succeeding calendar year. Tax credit certificates
3 8 issued under this chapter may be transferred to any person or
3 9 entity. The department of economic development shall notify
3 10 the department of revenue of the tax credit certificates which
3 11 have been approved for transfer. Within ninety days of
3 12 transfer, the transferee must submit the transferred tax
3 13 credit certificate to the department of ~~economic development~~
3 14 revenue along with a statement containing the transferee's
3 15 name, tax identification number, and address, and the
3 16 denomination that each replacement tax credit certificate is
3 17 to carry and any other information required by the department
3 18 of revenue. Within thirty days of receiving the transferred
3 19 tax credit certificate and the transferee's statement, the
3 20 department of ~~economic development~~ revenue shall issue one or
3 21 more replacement tax credit certificates to the transferee.
3 22 Each replacement certificate must contain the information
3 23 required to receive the original certificate and must have the
3 24 same expiration date that appeared in the transferred tax
3 25 credit certificate. Tax credit certificate amounts of less
3 26 than the minimum amount established by rule of the department
3 27 of economic development shall not be transferable. A tax
3 28 credit shall not be claimed by a transferee under subsection
3 29 6, paragraph "a", until a replacement tax credit certificate
3 30 identifying the transferee as the proper holder has been
3 31 issued.

3 32 Sec. 2. Section 68A.102, subsection 21, Code Supplement
3 33 2005, is amended to read as follows:
3 34 21. "State income tax liability" means the state
3 35 individual income tax imposed under section 422.5 ~~reduced by~~
4 1 ~~the sum of the deductions from the computed tax as provided~~
4 2 ~~under section 422.12, less the amounts of nonrefundable~~
4 3 ~~credits allowed under chapter 422, division II.~~

4 4 Sec. 3. Section 257.21, unnumbered paragraph 2, Code 2005,
4 5 is amended to read as follows:
4 6 The instructional support income surtax shall be imposed on
4 7 the state individual income tax for the calendar year during
4 8 which the school's budget year begins, or for a taxpayer's
4 9 fiscal year ending during the second half of that calendar
4 10 year and after the date the board adopts a resolution to
4 11 participate in the program or the first half of the succeeding
4 12 calendar year, and shall be imposed on all individuals
4 13 residing in the school district on the last day of the
4 14 applicable tax year. As used in this section, "state
4 15 individual income tax" means the taxes computed under section
4 16 422.5, less the amounts of nonrefundable credits allowed in
4 17 sections 422.11A, 422.11B, 422.12, and 422.12B under chapter
4 18 422, division II.

4 19 Sec. 4. Section 404A.4, subsection 5, unnumbered paragraph
4 20 1, Code Supplement 2005, is amended to read as follows:
4 21 Tax credit certificates issued under this chapter may be
4 22 transferred to any person or entity. Within ninety days of
4 23 transfer, the transferee must submit the transferred tax
4 24 credit certificate to the ~~state historic preservation office~~
4 25 department of revenue along with a statement containing the

transferee's name, tax identification number, and address, and the denomination that each replacement tax credit certificate is to carry and any other information required by the department of revenue. Within thirty days of receiving the transferred tax credit certificate and the transferee's statement, the ~~office~~ department of revenue shall issue one or more replacement tax credit certificates to the transferee. Each replacement certificate must contain the information required under subsection 2 and must have the same expiration date that appeared in the transferred tax credit certificate. Tax credit certificate amounts of less than the minimum amount established by rule of the state historic preservation office shall not be transferable. A tax credit shall not be claimed by a transferee under this chapter until a replacement tax credit certificate identifying the transferee as the proper holder has been issued.

Sec. 5. Section 421.17, subsection 14, Code Supplement 2005, is amended by striking the subsection.

Sec. 6. Section 422.5, subsection 1, paragraph j, subparagraph (2), unnumbered paragraph 2, Code 2005, is amended to read as follows:

This subparagraph shall not affect the amount of the taxpayer's ~~checkoff to the Iowa election campaign fund under section 68A.601, the checkoff for the fish and game fund in section 456A.16 checkoffs under this division,~~ the credits from tax provided in ~~sections 422.10, 422.11A, and 422.12 under this division,~~ and the allocation of these credits between spouses if the taxpayers filed separate returns or separately on combined returns.

Sec. 7. Section 422.5, subsection 1, paragraph k, subparagraph (2), subparagraph subdivision (b), Code 2005, is amended to read as follows:

(b) Twenty-six thousand dollars for a single person or ~~an~~ ~~unmarried~~ a head of household.

Sec. 8. Section 422.5, subsection 2, Code 2005, is amended to read as follows:

2. However, the tax shall not be imposed on a resident or nonresident whose net income, as defined in section 422.7, is thirteen thousand five hundred dollars or less in the case of married persons filing jointly or filing separately on a combined return, ~~unmarried~~ heads of household, and surviving spouses or nine thousand dollars or less in the case of all other persons; but in the event that the payment of tax under this division would reduce the net income to less than thirteen thousand five hundred dollars or nine thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirteen thousand five hundred dollars or nine thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. For purposes of this subsection, net income includes all amounts of pensions or other retirement income received from any source which is not taxable under this division as a result of the government pension exclusions in section 422.7, or any other state law. If the combined net income of a husband and wife exceeds thirteen thousand five hundred dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirteen thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in section 422.9, subsection 3. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable.

In addition, if the married persons', filing jointly or filing separately on a combined return, ~~unmarried~~ head of household's, or surviving spouse's net income exceeds thirteen thousand five hundred dollars, the regular tax imposed under this division shall be the lesser of the maximum state individual income tax rate times the portion of the net income in excess of thirteen thousand five hundred dollars or the

7 2 regular tax liability computed without regard to this
7 3 sentence. Taxpayers electing to file separately shall compute
7 4 the alternate tax described in this paragraph using the total
7 5 net income of the husband and wife. The alternate tax
7 6 described in this paragraph does not apply if one spouse
7 7 elects to carry back or carry forward the loss as provided in
7 8 section 422.9, subsection 3.
7 9 Sec. 9. Section 422.6, unnumbered paragraph 1, Code 2005,
7 10 is amended to read as follows:
7 11 The tax imposed by section 422.5 less the amounts of
7 12 nonrefundable credits allowed under sections 15.333, 15.335,
7 13 422.10, 422.11, 422.11A, and 422.11B, and the personal
7 14 exemption credit allowed under section 422.12 this division
7 15 apply to and are a charge against estates and trusts with
7 16 respect to their taxable income, and the rates are the same as
7 17 those applicable to individuals. The fiduciary shall make the
7 18 return of income for the estate or trust for which the
7 19 fiduciary acts, whether the income is taxable to the estate or
7 20 trust or to the beneficiaries. However, for tax years ending
7 21 after August 5, 1997, if the trust is a qualified preneed
7 22 funeral trust as set forth in section 685 of the Internal
7 23 Revenue Code and the trustee has elected the special tax
7 24 treatment under section 685 of the Internal Revenue Code,
7 25 neither the trust nor the beneficiary is subject to Iowa
7 26 income tax on income accruing to the trust.
7 27 Sec. 10. Section 422.7, subsection 21, paragraph a,
7 28 subparagraph (1), unnumbered paragraph 1, Code Supplement
7 29 2005, is amended to read as follows:
7 30 Net capital gain from the sale of real property used in a
7 31 business, in which the taxpayer materially participated for
7 32 ten years, as defined in section 469(h) of the Internal
7 33 Revenue Code, and which has been held for a minimum of ten
7 34 years, or from the sale of a business, as defined in section
7 35 423.1, ~~in which the taxpayer was employed or~~ in which the
8 1 taxpayer materially participated for ten years, as defined in
8 2 section 469(h) of the Internal Revenue Code, and which has
8 3 been held for a minimum of ten years. The sale of a business
8 4 means the sale of all or substantially all of the tangible
8 5 personal property or service of the business.
8 6 Sec. 11. Section 422.9, subsection 1, Code Supplement
8 7 2005, is amended to read as follows:
8 8 1. An optional standard deduction, after deduction of
8 9 federal income tax, equal to one thousand two hundred thirty
8 10 dollars for a married person who files separately or a single
8 11 person or equal to three thousand thirty dollars for a husband
8 12 and wife who file a joint return, a surviving spouse, or ~~an~~
8 13 ~~unmarried~~ a head of household. The optional standard
8 14 deduction shall not exceed the amount remaining after
8 15 deduction of the federal income tax. The amount of federal
8 16 income tax deducted shall be computed as provided in
8 17 subsection 2, paragraph "b".
8 18 Sec. 12. Section 422.10, subsection 4, Code Supplement
8 19 2005, is amended to read as follows:
8 20 4. Any credit in excess of the tax liability imposed by
8 21 section 422.5 less the amounts of nonrefundable credits
8 22 allowed under sections 422.11A, 422.12, and 422.12B this
8 23 division for the taxable year shall be refunded with interest
8 24 computed under section 422.25. In lieu of claiming a refund,
8 25 a taxpayer may elect to have the overpayment shown on the
8 26 taxpayer's final, completed return credited to the tax
8 27 liability for the following taxable year.
8 28 Sec. 13. Section 422.10, Code Supplement 2005, is amended
8 29 by adding the following new subsection:
8 30 NEW SUBSECTION. 5. An individual may claim an additional
8 31 research activities credit authorized pursuant to section
8 32 15.335 if the eligible business is a partnership, S
8 33 corporation, limited liability company, or estate or trust
8 34 which elects to have the income taxed directly to the
8 35 individual. The amount of the credit shall be as provided in
9 1 section 15.335.
9 2 Sec. 14. Section 422.11, Code 2005, is amended to read as
9 3 follows:
9 4 422.11 FRANCHISE TAX CREDIT.
9 5 The taxes imposed under this division, less the credits
9 6 allowed under section sections 422.12 and 422.12B, shall be
9 7 reduced by a franchise tax credit. A taxpayer who is a
9 8 shareholder in a financial institution, as defined in section
9 9 581 of the Internal Revenue Code, which has in effect for the
9 10 tax year an election under subchapter S of the Internal
9 11 Revenue Code, or is a member of a financial institution
9 12 organized as a limited liability company under chapter 524

9 13 that is taxed as a partnership for federal income tax
9 14 purposes, shall compute the amount of the tax credit by
9 15 recomputing the amount of tax under this division by reducing
9 16 the taxable income of the taxpayer by the taxpayer's pro rata
9 17 share of the items of income and expense of the financial
9 18 institution and subtracting the credits allowed under ~~section~~
9 19 ~~sections~~ 422.12 and 422.12B. This recomputed tax shall be
9 20 subtracted from the amount of tax computed under this division
9 21 after the deduction for credits allowed under ~~section~~ ~~sections~~
9 22 422.12 and 422.12B. The resulting amount, which shall not
9 23 exceed the taxpayer's pro rata share of the franchise tax paid
9 24 by the financial institution, is the amount of the franchise
9 25 tax credit allowed.

9 26 Sec. 15. Section 422.11B, subsection 1, unnumbered
9 27 paragraph 2, Code 2005, is amended to read as follows:
9 28 The minimum tax credit for a tax year is the excess, if
9 29 any, of the ~~adjusted~~ net minimum tax imposed for all prior tax
9 30 years beginning on or after January 1, 1987, over the amount
9 31 allowable as a credit under this section for those prior tax
9 32 years.

9 33 Sec. 16. Section 422.11B, subsection 2, unnumbered
9 34 paragraph 3, Code 2005, is amended to read as follows:
9 35 ~~The adjusted net minimum tax for a tax year is the net~~
10 1 ~~minimum tax for the tax year reduced by the amount which would~~
10 2 ~~be the net minimum tax if the only item of tax preference~~
10 3 ~~taken into account was that described in paragraph (6) of~~
10 4 ~~section 57(a) of the Internal Revenue Code.~~

10 5 Sec. 17. Section 422.11F, Code 2005, is amended to read as
10 6 follows:
10 7 422.11F INVESTMENT TAX CREDITS.
10 8 1. The taxes imposed under this division, less the credits
10 9 allowed under sections 422.12 and 422.12B, shall be reduced by
10 10 an investment tax credit authorized pursuant to section 15E.43
10 11 for an investment in a qualifying business or a community=
10 12 based seed capital fund.

10 13 2. The taxes imposed under this division, less the credits
10 14 allowed under sections 422.12 and 422.12B, shall be reduced by
10 15 investment tax credits authorized pursuant to sections 15.333
10 16 and 15E.193B, subsection 6.

10 17 Sec. 18. NEW SECTION. 422.11M IOWA FUND OF FUNDS TAX
10 18 CREDIT.
10 19 The taxes imposed under this division, less the credits
10 20 allowed under sections 422.12 and 422.12B, shall be reduced by
10 21 a tax credit authorized pursuant to section 15E.66, if
10 22 redeemed, for investments in the Iowa fund of funds.

10 23 Sec. 19. Section 422.12, subsection 3, Code 2005, is
10 24 amended to read as follows:
10 25 3. For the purpose of this section, the determination of
10 26 whether an individual is married shall be made ~~as of the close~~
10 27 ~~of the individual's tax year unless the individual's spouse~~
10 28 ~~dies during the individual's tax year, in which case the~~
10 29 ~~determination shall be made as of the date of the spouse's~~
10 30 ~~death in accordance with section 7703 of the Internal Revenue~~
10 31 ~~Code. An individual legally separated from the individual's~~
10 32 ~~spouse under a decree of divorce or of separate maintenance~~
10 33 ~~shall not be considered married.~~

10 34 Sec. 20. Section 422.12A, subsection 2, Code 2005, is
10 35 amended to read as follows:
11 1 2. The director of revenue shall draft the income tax form
11 2 to allow the designation of contributions to the keep Iowa
11 3 beautiful fund on the tax return. The department of revenue,
11 4 on or before January 31, shall transfer the total amount
11 5 designated on the tax return forms due in the preceding
11 6 calendar year to the keep Iowa beautiful fund. However,
11 7 before a checkoff pursuant to this section shall be permitted,
11 8 all liabilities on the books of the department of ~~revenue~~
11 9 administrative services and accounts identified as owing under
11 10 section ~~421.17~~ 8A.504 and the political contribution allowed
11 11 under section 68A.601 shall be satisfied.

11 12 Sec. 21. Section 422.12C, subsection 1, unnumbered
11 13 paragraph 1, Code Supplement 2005, is amended to read as
11 14 follows:
11 15 The taxes imposed under this division, less the amounts of
11 16 nonrefundable credits allowed under ~~sections 422.11A, 422.11B,~~
11 17 ~~422.12, and 422.12B~~ this division, shall be reduced by a child
11 18 and dependent care credit equal to the following percentages
11 19 of the federal child and dependent care credit provided in
11 20 section 21 of the Internal Revenue Code:
11 21 Sec. 22. Section 422.12C, subsection 2, paragraph a,
11 22 unnumbered paragraph 1, Code Supplement 2005, is amended to
11 23 read as follows:

~~11 24 In lieu of the child and dependent care credit authorized~~
~~11 25 in subsection 1, a taxpayer may claim The taxes imposed under~~
~~11 26 this division, less the amounts of nonrefundable credits~~
~~11 27 allowed under this division, may be reduced by an early~~
11 28 childhood development tax credit equal to twenty-five percent
11 29 of the first one thousand dollars which the taxpayer has paid
11 30 to others for each dependent, as defined in the Internal
11 31 Revenue Code, ages three through five for early childhood
11 32 development expenses. In determining the amount of early
11 33 childhood development expenses, such expenses paid during
11 34 November and December of the previous tax year shall be
11 35 considered paid in the tax year for which the tax credit is
12 1 claimed. This credit is available to a taxpayer whose net
12 2 income is less than forty-five thousand dollars. If the early
12 3 childhood development tax credit is claimed for a tax year,
12 4 the taxpayer and the taxpayer's spouse shall not claim the
12 5 child and dependent care credit under subsection 1. As used
12 6 in this subsection, "early childhood development expenses"
12 7 means services provided to the dependent by a preschool, as
12 8 defined in section 237A.1, materials, and other activities as
12 9 follows:
12 10 Sec. 23. Section 422.12F, subsection 2, Code 2005, is
12 11 amended to read as follows:
12 12 2. The director of revenue shall draft the income tax form
12 13 to allow the designation of contributions to the volunteer
12 14 fire fighter preparedness fund on the tax return. The
12 15 department of revenue, on or before January 31, shall certify
12 16 the total amount designated on the tax return forms due in the
12 17 preceding calendar year and shall report the amount to the
12 18 treasurer of state. The treasurer of state shall credit the
12 19 amount to the volunteer fire fighter preparedness fund.
12 20 However, before a checkoff pursuant to this section shall be
12 21 permitted, all liabilities on the books of the department of
12 22 ~~revenue administrative services~~ and accounts identified as
12 23 owing under section ~~421.17~~ 8A.504 and the political
12 24 contribution allowed under section 68A.601 shall be satisfied.
12 25 Sec. 24. NEW SECTION. 422.12G INCOME TAX CHECKOFF FOR
12 26 IOWA ELECTION CAMPAIGN FUND.
12 27 A person who files an individual or a joint income tax
12 28 return with the department of revenue under section 422.13 may
12 29 designate a contribution to the Iowa election campaign fund
12 30 authorized pursuant to section 68A.601.
12 31 Sec. 25. NEW SECTION. 422.12H INCOME TAX CHECKOFF FOR
12 32 FISH AND GAME PROTECTION FUND.
12 33 A person who files an individual or a joint income tax
12 34 return with the department of revenue under section 422.13 may
12 35 designate a contribution to the state fish and game protection
13 1 fund authorized pursuant to section 456A.16.
13 2 Sec. 26. Section 422.33, subsection 5, Code Supplement
13 3 2005, is amended by adding the following new paragraphs:
13 4 NEW PARAGRAPH. f. A corporation which is a primary
13 5 business or a supporting business in a quality jobs enterprise
13 6 zone may claim the research activities credit authorized
13 7 pursuant to section 15A.9, subsection 8, in lieu of the credit
13 8 computed in paragraph "a" or "b".
13 9 NEW PARAGRAPH. g. A corporation which is an eligible
13 10 business may claim an additional research activities credit
13 11 authorized pursuant to section 15.335.
13 12 Sec. 27. Section 422.33, subsection 7, paragraph a,
13 13 unnumbered paragraph 2, Code Supplement 2005, is amended to
13 14 read as follows:
13 15 The minimum tax credit for a tax year is the excess, if
13 16 any, of the ~~adjusted~~ net minimum tax imposed for all prior tax
13 17 years beginning on or after January 1, 1987, over the amount
13 18 allowable as a credit under this subsection for those prior
13 19 tax years.
13 20 Sec. 28. Section 422.33, subsection 7, paragraph b,
13 21 unnumbered paragraph 3, Code Supplement 2005, is amended to
13 22 read as follows:
13 23 ~~The adjusted net minimum tax for a tax year is the net~~
~~13 24 minimum tax for the tax year reduced by the amount which would~~
~~13 25 be the net minimum tax if the only item of tax preference~~
~~13 26 taken into account was that described in paragraph (6) of~~
~~13 27 section 57(a) of the Internal Revenue Code.~~
13 28 Sec. 29. Section 422.33, subsection 12, Code Supplement
13 29 2005, is amended to read as follows:
13 30 12. a. The taxes imposed under this division shall be
13 31 reduced by an investment tax credit authorized pursuant to
13 32 section 15E.43 for an investment in a qualifying business or a
13 33 community-based seed capital fund.
13 34 b. The taxes imposed under this division shall be reduced

13 35 by investment tax credits authorized pursuant to sections
14 1 15.333, 15A.9, subsection 4, and 15E.193B, subsection 6.

14 2 Sec. 30. Section 422.33, Code Supplement 2005, is amended
14 3 by adding the following new subsections:
14 4 NEW SUBSECTION. 20. The taxes imposed under this division
14 5 shall be reduced by a corporate tax credit authorized pursuant
14 6 to section 15.331C for certain sales taxes paid by a third=
14 7 party developer.

14 8 NEW SUBSECTION. 21. The taxes imposed under this division
14 9 shall be reduced by a tax credit authorized pursuant to
14 10 section 15E.66, if redeemed, for investments in the Iowa fund
14 11 of funds.

14 12 Sec. 31. Section 422.34A, Code 2005, is amended by adding
14 13 the following new subsection:

14 14 NEW SUBSECTION. 8. Utilizing a distribution facility
14 15 within this state, owning or leasing property at a
14 16 distribution facility within this state that is used at or
14 17 distributed from the distribution facility, or selling
14 18 property shipped or distributed from a distribution facility.
14 19 For purposes of this subsection, "distribution facility" means
14 20 an establishment where shipments of tangible personal property
14 21 are processed for delivery to customers. "Distribution
14 22 facility" does not include an establishment where retail sales
14 23 of tangible personal property or returns of such property are
14 24 undertaken with respect to retail customers on more than
14 25 twelve days a year except for a distribution facility which
14 26 processes customer sales orders by mail, telephone, or
14 27 electronic means, if the distribution facility also processes
14 28 shipments of tangible personal property to customers and if at
14 29 least seventy-five percent of the dollar amount of goods sold
14 30 through the distribution facility are sold to customers
14 31 outside this state.

14 32 Sec. 32. Section 422.60, subsection 2, paragraphs a and b,
14 33 Code Supplement 2005, are amended to read as follows:

14 34 a. Add items of tax preference included in federal
14 35 alternative minimum taxable income under section 57, except
15 1 subsections (a)(1) and (a)(5), of the Internal Revenue Code,
15 2 make the adjustments included in federal alternative minimum
15 3 taxable income under section 56, except subsections (a)(4),
15 4 (c)(1), (d), ~~(f)~~, and (g), of the Internal Revenue Code, and
15 5 add losses as required by section 58 of the Internal Revenue
15 6 Code.

15 7 b. Make the adjustments provided in section 56(c)(1) of
15 8 the Internal Revenue Code, except that in making the
15 9 calculation under ~~sections 56(f)(1) and section~~ 56(g)(1) of
15 10 the Internal Revenue Code the state alternative minimum
15 11 taxable income, computed without regard to the adjustments
15 12 made by this paragraph, the exemption provided for in
15 13 paragraph "d", and the state alternative tax net operating
15 14 loss described in paragraph "e", shall be substituted for the
15 15 items described in ~~sections 56(f)(1)(B) and section~~
15 16 ~~56(g)(1)(B) of the Internal Revenue Code.~~

15 17 Sec. 33. Section 422.60, subsection 3, paragraph a,
15 18 unnumbered paragraph 2, Code Supplement 2005, is amended to
15 19 read as follows:

15 20 The minimum tax credit for a tax year is the excess, if
15 21 any, of the ~~adjusted~~ net minimum tax imposed for all prior tax
15 22 years beginning on or after January 1, 1987, over the amount
15 23 allowable as a credit under this subsection for those prior
15 24 tax years.

15 25 Sec. 34. Section 422.60, subsection 3, paragraph b,
15 26 unnumbered paragraph 3, Code Supplement 2005, is amended to
15 27 read as follows:

~~15 28 The adjusted net minimum tax for a tax year is the net~~
~~15 29 minimum tax for the tax year reduced by the amount which would~~
~~15 30 be the net minimum tax if the only item of tax preference~~
~~15 31 taken into account was that described in paragraph (6) of~~
~~15 32 section 57(a) of the Internal Revenue Code.~~

15 33 Sec. 35. Section 422.60, subsection 5, Code Supplement
15 34 2005, is amended to read as follows:

15 35 5. a. The taxes imposed under this division shall be
16 1 reduced by an investment tax credit authorized pursuant to
16 2 section 15E.43 for an investment in a qualifying business or a
16 3 community-based seed capital fund.

16 4 b. The taxes imposed under this division shall be reduced
16 5 by investment tax credits authorized pursuant to sections
16 6 15.333 and 15E.193B, subsection 6.

16 7 Sec. 36. Section 422.60, Code Supplement 2005, is amended
16 8 by adding the following new subsections:

16 9 NEW SUBSECTION. 11. The taxes imposed under this division
16 10 shall be reduced by a corporate tax credit authorized pursuant

16 11 to section 15.331C for certain sales taxes paid by a third=
16 12 party developer.
16 13 NEW SUBSECTION. 12. The taxes imposed under this division
16 14 shall be reduced by a tax credit authorized pursuant to
16 15 section 15E.66, if redeemed, for investments in the Iowa fund
16 16 of funds.
16 17 Sec. 37. Section 422D.2, Code 2005, is amended to read as
16 18 follows:
16 19 422D.2 LOCAL INCOME SURTAX.
16 20 A county may impose by ordinance a local income surtax as
16 21 provided in section 422D.1 at the rate set by the board of
16 22 supervisors, of up to one percent, on the state individual
16 23 income tax of each individual residing in the county at the
16 24 end of the individual's applicable tax year. However, the
16 25 cumulative total of the percents of income surtax imposed on
16 26 any taxpayer in the county shall not exceed twenty percent.
16 27 The reason for imposing the surtax and the amount needed shall
16 28 be set out in the ordinance. The surtax rate shall be set to
16 29 raise only the amount needed. For purposes of this section,
16 30 "state individual income tax" means the tax computed under
16 31 section 422.5, less the amounts of nonrefundable credits
16 32 allowed in sections 422.11A, 422.11B, 422.12, and 422.12B
16 33 under chapter 422, division II.
16 34 Sec. 38. Section 423.3, subsection 18, Code Supplement
16 35 2005, is amended by adding the following new paragraph:
17 1 NEW PARAGRAPH. f. Home and community based services
17 2 providers certified to offer Medicaid waiver services by the
17 3 department of human services that are any of the following:
17 4 (1) Ill and handicapped waiver service providers,
17 5 described in 441 IAC 77.30.
17 6 (2) Hospice providers, described in 441 IAC 77.32.
17 7 (3) Elderly waiver service providers, described in 441 IAC
17 8 77.33.
17 9 (4) AIDS/HIV waiver service providers, described in 441
17 10 IAC 77.34.
17 11 (5) Federally qualified health centers, described in 441
17 12 IAC 77.35.
17 13 (6) MR waiver service providers, described in 441 IAC
17 14 77.37.
17 15 Sec. 39. Section 423.3, subsection 39, Code Supplement
17 16 2005, is amended by adding the following new paragraph:
17 17 NEW PARAGRAPH. c. Notwithstanding paragraph "a", the
17 18 sales of tangible personal property or the furnishing of
17 19 services of a recurring nature by the owner if, at the time of
17 20 the sale, all of the following apply:
17 21 (1) The seller is not engaged for profit in the business
17 22 of selling tangible personal property or the furnishing of
17 23 services taxed under section 423.2. For purposes of this
17 24 subparagraph, the fact of the recurring nature of selling
17 25 tangible personal property or the furnishing of services does
17 26 not constitute by itself engaging for profit in the business
17 27 of selling tangible personal property or the furnishing of
17 28 services.
17 29 (2) The total gross receipts from such sales of tangible
17 30 personal property or the furnishing of services during the
17 31 calendar year does not exceed one thousand dollars.
17 32 Sec. 40. Section 423.3, subsection 50, Code Supplement
17 33 2005, is amended to read as follows:
17 34 50. The sales price of sales of electricity, steam, or any
17 35 taxable service when purchased and used in the processing of
18 1 tangible personal property intended to be sold ultimately at
18 2 retail or of any fuel which is consumed in creating power,
18 3 heat, or steam for processing or for generating electric
18 4 current.
18 5 Sec. 41. Section 423.3, subsection 86, Code Supplement
18 6 2005, is amended to read as follows:
18 7 86. The sales price from services performed on a vessel if
18 8 all of the following apply:
18 9 a. The vessel is a licensed vessel under the laws of the
18 10 United States coast guard.
18 11 ~~b. The vessel is not moored or tied to a physical location~~
18 12 ~~in this state.~~
18 13 ~~c. b.~~ The service is used to repair or restore a defect
18 14 in the vessel.
18 15 ~~d. c.~~ The vessel is engaged in interstate commerce and
18 16 will continue in interstate commerce once the repairs or
18 17 restoration is completed.
18 18 ~~e. d.~~ The vessel is in navigable water that borders the
18 19 eastern boundary of this state.
18 20 For purposes of this exemption, "vessel" includes a ship,
18 21 barge, or other waterborne vessel.

18 22 Sec. 42. Section 423.6, Code 2005, is amended by adding
18 23 the following new subsection:
18 24 NEW SUBSECTION. 25. Exempted from the purchase price of a
18 25 replacement motor vehicle owned by a motor vehicle dealer
18 26 licensed under chapter 322 which is being registered by that
18 27 dealer and is not otherwise exempt from tax is the fair market
18 28 value of a replaced motor vehicle if all of the following
18 29 conditions are met:

- 18 30 a. The motor vehicle being registered is being placed in
18 31 service as a replacement motor vehicle for a motor vehicle
18 32 registered by the motor vehicle dealer.
18 33 b. The motor vehicle being registered is taken from the
18 34 motor vehicle dealer's inventory.
18 35 c. Use tax on the motor vehicle being replaced was paid by
19 1 the motor vehicle dealer when that motor vehicle was
19 2 registered.
19 3 d. The replaced motor vehicle is returned to the motor
19 4 vehicle dealer's inventory for sale.
19 5 e. The application for registration and title of the motor
19 6 vehicle being registered is filed with the county treasurer
19 7 within two weeks of the date the replaced motor vehicle is
19 8 returned to the motor vehicle dealer's inventory.
19 9 f. The motor vehicle being registered is placed in the
19 10 same or substantially similar service as the replaced motor
19 11 vehicle.

19 12 Sec. 43. Section 423.33, subsection 3, Code Supplement
19 13 2005, is amended to read as follows:

19 14 3. EVENT SPONSOR'S LIABILITY FOR SALES TAX. A person
19 15 sponsoring a flea market or a craft, antique, coin, or stamp
19 16 show or similar event shall obtain from every retailer selling
19 17 tangible personal property or taxable services at the event
19 18 proof that the retailer possesses a valid sales tax permit or
19 19 secure from the retailer a statement, taken in good faith,
19 20 that property or services offered for sale are not subject to
19 21 sales tax. Failure to do so renders a sponsor of the event
19 22 liable for payment of any sales tax, interest, and penalty due
19 23 and owing from any retailer selling property or services at
19 24 the event. Sections 423.31, 423.32, 423.37, 423.38, 423.39,
19 25 423.40, 423.41, and 423.42 apply to the sponsors. For
19 26 purposes of this subsection, a person sponsoring a flea market
19 27 or a craft, antique, coin, or stamp show or similar event does
19 28 not include an organization which sponsors an event ~~less than~~
~~19 29 three times a year determined to qualify as an event involving~~
19 30 casual sales pursuant to section 423.3, subsection 39, or the
19 31 state fair or a fair as defined in section 174.1.

19 32 Sec. 44. Section 423.37, subsection 2, Code 2005, is
19 33 amended to read as follows:

19 34 2. If a return required by this subchapter is not filed,
19 35 or if a return when filed is incorrect or insufficient and the
20 1 maker fails to file a corrected or sufficient return within
20 2 twenty days after the same is required by notice from the
20 3 department, the department shall determine the amount of tax
20 4 due from information as the department may be able to obtain
20 5 and, if necessary, may estimate the tax on the basis of
20 6 external indices, such as number of employees of the person
20 7 concerned, rentals paid by the person, stock on hand, or other
20 8 factors. The determination may be made using any generally
~~20 9 recognized valid and reliable sampling technique, whether or~~
~~20 10 not the person being audited has complete records.~~ The

20 11 department shall give notice of the determination to the
20 12 person liable for the tax. The determination shall fix the
20 13 tax unless the person against whom it is assessed shall,
20 14 within sixty days after the giving of notice of the
20 15 determination, apply to the director for a hearing or unless
20 16 the taxpayer contests the determination by paying the tax,
20 17 interest, and penalty and timely filing a claim for refund.
20 18 At the hearing, evidence may be offered to support the
20 19 determination or to prove that it is incorrect. After the
20 20 hearing the director shall give notice of the decision to the
20 21 person liable for the tax.

20 22 Sec. 45. Section 427.1, subsection 2, Code Supplement
20 23 2005, is amended to read as follows:

20 24 2. MUNICIPAL AND MILITARY PROPERTY. The property of a
20 25 county, township, city, school corporation, levee district,
20 26 drainage district, or the Iowa national guard, when devoted to
20 27 public use and not held for pecuniary profit, except property
20 28 of a municipally owned electric utility held under joint
20 29 ownership and property of an electric power facility financed
20 30 under chapter 28F or 476A that shall be subject to taxation
20 31 under chapter 437A and facilities of a municipal utility that
20 32 are used for the provision of local exchange services pursuant

20 33 to chapter 476, but only to the extent such facilities are
20 34 used to provide such services, which shall be subject to
20 35 taxation under chapter 433, except that section 433.11 shall
21 1 not apply. The exemption for property owned by a city or
21 2 county also applies to property which is operated by a city or
21 3 county as a library, art gallery or museum, conservatory,
21 4 botanical garden or display, observatory or science museum, or
21 5 as a location for holding athletic contests, sports or
21 6 entertainment events, expositions, meetings or conventions, or
21 7 leased from the city or county for any such purposes, or
21 8 leased from the city or county by the Iowa national guard or
21 9 by a federal agency for the benefit of the Iowa national guard
21 10 when devoted for public use and not for pecuniary profit.
21 11 Food and beverages may be served at the events or locations
21 12 without affecting the exemptions, provided the city has
21 13 approved the serving of food and beverages on the property if
21 14 the property is owned by the city or the county has approved
21 15 the serving of food and beverages on the property if the
21 16 property is owned by the county. The exemption for property
21 17 owned by a city or county also applies to property which is
21 18 located at an airport and leased to a fixed base operator
21 19 providing aeronautical services to the public.

21 20 Sec. 46. Section 427.1, subsection 21A, Code Supplement
21 21 2005, is amended to read as follows:
21 22 21A. DWELLING UNIT PROPERTY OWNED BY NONPROFIT
21 23 ORGANIZATIONS. Dwelling unit property owned and managed by a
21 24 nonprofit organization if the nonprofit organization owns and
21 25 manages more than forty dwelling units that are located in a
21 26 city with a population of more than one hundred ten thousand
21 27 which has a public housing authority that does not own or
21 28 manage housing stock for the purpose of low-rent housing. For
21 29 the 2005 and 2006 assessment years, an application is not
21 30 required to be filed to receive the exemption. For the 2007
21 31 and subsequent assessment years, an application for exemption
21 32 must be filed with the assessing authority not later than
21 33 February 1 of the assessment year for which the exemption is
21 34 sought. Upon the filing and allowance of the claim, the claim
21 35 shall be allowed on the property for successive years without
22 1 further filing as long as the property continues to qualify
22 2 for the exemption.

22 3 Sec. 47. Section 427A.1, Code 2005, is amended by adding
22 4 the following new subsection:
22 5 NEW SUBSECTION. 5A. Notwithstanding the other provisions
22 6 of this section, property that is equipment used for the
22 7 washing, waxing, drying, or vacuuming of motor vehicles and
22 8 point-of-sale equipment necessary for the purchase of car wash
22 9 services shall not be assessed and taxed as real property.

22 10 Sec. 48. Section 432.12C, Code 2005, is amended to read as
22 11 follows:

22 12 432.12C INVESTMENT TAX CREDITS.
22 13 1. The tax imposed under this chapter shall be reduced by
22 14 an investment tax credit authorized pursuant to section 15E.43
22 15 for an investment in a qualifying business or a community=
22 16 based seed capital fund.

22 17 2. The taxes imposed under this division shall be reduced
22 18 by investment tax credits authorized pursuant to sections
22 19 15.333A and 15E.193B, subsection 6.

22 20 Sec. 49. NEW SECTION. 432.12H TAX CREDIT FOR CERTAIN
22 21 SALES TAXES PAID BY THIRD-PARTY DEVELOPERS.

22 22 The taxes imposed under this chapter shall be reduced by a
22 23 tax credit authorized pursuant to section 15.331C for certain
22 24 sales taxes paid by a third-party developer.

22 25 Sec. 50. NEW SECTION. 432.12I IOWA FUND OF FUNDS TAX
22 26 CREDIT.

22 27 The taxes imposed under this chapter shall be reduced by a
22 28 tax credit authorized pursuant to section 15E.66, if redeemed,
22 29 for investments in the Iowa fund of funds.

22 30 Sec. 51. Section 441.38, subsection 2, Code Supplement
22 31 2005, is amended to read as follows:

22 32 2. Notice If the appeal to district court is taken from
22 33 the action of the local board of review, notice of appeal
22 34 shall be served as an original notice on the chairperson,
22 35 presiding officer, or clerk of the board of review within
23 1 twenty days after its adjournment or May 31, whichever is
23 2 later, and after the filing of notice under subsection 1 with
23 3 the clerk of district court. If the appeal to district court
23 4 is taken from the action of the property assessment appeal
23 5 board, notice of appeal shall be served as an original notice
23 6 on the secretary of the property assessment appeal board, if
23 7 applicable after the filing of notice under subsection 1 with
23 8 the clerk of district court.

23 9 Sec. 52. Section 533.24, Code Supplement 2005, is amended
23 10 by adding the following new subsections:
23 11 NEW SUBSECTION. 8. The moneys and credits tax imposed
23 12 under this section shall be reduced by an investment tax
23 13 credit authorized pursuant to section 15.333.
23 14 NEW SUBSECTION. 9. The moneys and credits tax imposed
23 15 under this section shall be reduced by a tax credit authorized
23 16 pursuant to section 15.331C for certain sales taxes paid by a
23 17 third-party developer.
23 18 NEW SUBSECTION. 10. The moneys and credits tax imposed
23 19 under this section shall be reduced by a tax credit authorized
23 20 pursuant to section 15E.66, if redeemed, for investments in
23 21 the Iowa fund of funds.

23 22 Sec. 53. 2005 Iowa Acts, chapter 140, section 72, is
23 23 amended to read as follows:

23 24 SEC. 72. REFUNDS. Refunds of taxes, interest, or
23 25 penalties which arise from claims resulting from the amendment
23 26 to section 423.3, subsection 5, in this division of this Act,
23 27 for the sale of agricultural drain tile materials occurring
23 28 between January 1, 1998, and the effective date of the section
23 29 amending section 423.3, subsection 5, in this division of this
23 30 Act, shall be limited to ~~twenty-five~~ fifty thousand dollars in
23 31 the aggregate and shall not be allowed unless refund claims
23 32 are filed prior to October 1, 2005, notwithstanding any other
23 33 provision of law. If the amount of claims totals more than
23 34 ~~twenty-five~~ fifty thousand dollars in the aggregate, the
23 35 department of revenue shall prorate the ~~twenty-five~~ fifty
24 1 thousand dollars among all claimants in relation to the
24 2 amounts of the claimants' valid claims.

24 3 Sec. 54. EFFECTIVE AND APPLICABILITY DATES.

24 4 1. The section of this division of this Act enacting
24 5 section 427A.1, subsection 5A, being deemed of immediate
24 6 importance, takes effect upon enactment and applies
24 7 retroactively to January 1, 2006, for assessment years
24 8 beginning on or after that date.

24 9 2. The section of this division of this Act amending 2005
24 10 Iowa Acts, chapter 140, section 72, being deemed of immediate
24 11 importance, takes effect upon enactment and applies
24 12 retroactively to June 30, 2005.

24 13 DIVISION II

24 14 STREAMLINED SALES AND USE TAX UPDATES

24 15 Sec. 55. Section 423.2, subsection 8, Code Supplement
24 16 2005, is amended by striking the subsection and inserting in
24 17 lieu thereof the following:

24 18 8. a. A tax of five percent is imposed on the sales price
24 19 from sales of bundled transactions. For the purposes of this
24 20 subsection, a "bundled transaction" is the retail sale of two
24 21 or more distinct and identifiable products, except real
24 22 property and services to real property, which are sold for one
24 23 nonitemized price. A "bundled transaction" does not include
24 24 the sale of any products in which the sales price varies, or
24 25 is negotiable, based on the selection by the purchaser of the
24 26 products included in the transaction.

24 27 b. "Distinct and identifiable products" does not include
24 28 any of the following:

24 29 (1) Packaging or other materials that accompany the retail
24 30 sale of the products and are incidental or immaterial to the
24 31 retail sale of the products.

24 32 (2) A product provided free of charge with the required
24 33 purchase of another product. A product is "provided free of
24 34 charge" if the sales price of the product purchased does not
24 35 vary depending on the inclusion of the product which is
25 1 provided free of charge.

25 2 (3) Items included in the definition of "sales price"
25 3 pursuant to section 423.1.

25 4 c. "One nonitemized price" does not include a price that
25 5 is separately identified by product on binding sales or other
25 6 supporting sales-related documentation made available to the
25 7 customer in paper or electronic form.

25 8 Sec. 56. Section 423.18, Code Supplement 2005, is amended
25 9 by striking the section and inserting in lieu thereof the
25 10 following:

25 11 423.18 MULTIPLE POINTS OF USE.

25 12 1. Notwithstanding the provisions of section 423.15, a
25 13 business purchaser that is not a holder of a direct pay permit
25 14 that knows at the time of purchase of a digital good, computer
25 15 software, or a service that the digital good, computer
25 16 software, or service will be concurrently available for use in
25 17 more than one jurisdiction shall deliver to the seller in
25 18 conjunction with its purchase an exemption certificate
25 19 claiming multiple points of use or meet the requirements of

subsection 2 or 3. For the purpose of this section only,
"computer software" includes but is not limited to computer
software delivered electronically, by load and leave, or in
tangible form. "Computer software" does not include computer
software received in person by a business purchaser at a
business location of the seller.

a. Upon receipt of an exemption certificate claiming
multiple points of use, the seller is relieved of all
obligation to collect, pay, or remit the applicable tax, and
the purchaser shall be obligated to collect, pay, or remit the
applicable tax on a direct pay basis.

b. A purchaser delivering an exemption certificate
claiming multiple points of use may use any reasonable, but
consistent and uniform, method of apportionment that is
supported by the purchaser's business books and records as
they exist at the time the transaction is reported for sales
or use tax purposes.

c. A purchaser delivering an exemption certificate
claiming multiple points of use shall report and pay the
appropriate tax to each jurisdiction where concurrent use
occurs. The tax due shall be calculated as if the apportioned
amount of the digital good, computer software, or service had
been delivered to each jurisdiction to which the sale is
apportioned pursuant to paragraph "b".

d. The exemption certificate claiming multiple points of
use shall remain in effect for all future sales by the seller
to the purchaser, except as to the subsequent sale's specific
apportionment that is governed by the principles of paragraphs
"b" and "c", until the exemption certificate is revoked in
writing.

2. Notwithstanding subsection 1, when the seller knows
that the product will be concurrently available for use in
more than one jurisdiction, but the purchaser does not provide
an exemption certificate claiming multiple points of use as
required in subsection 1, the seller may work with the
purchaser to produce the correct apportionment. The purchaser
and seller may use any reasonable, but consistent and uniform,
method of apportionment that is supported by the seller's and
purchaser's business books and records as they exist at the
time the transaction is reported for sales or use tax
purposes. If the purchaser certifies the accuracy of the
apportionment and the seller accepts the certification, the
seller shall collect and remit the tax pursuant to subsection
1, paragraph "c". In the absence of bad faith, the seller is
relieved of any further obligation to collect tax on any
transaction where the seller has collected tax pursuant to the
information certified by the purchaser.

3. When the seller knows that the product will be
concurrently available for use in more than one jurisdiction
and the purchaser does not have a direct pay permit and does
not provide the seller with an exemption certificate claiming
multiple points of use exemption as required in subsection
1, or certification pursuant to subsection 2, the seller shall
collect and remit the tax based on the provisions of section
423.15.

4. A holder of a direct pay permit shall not be required
to deliver an exemption certificate claiming multiple points
of use to the seller. A direct pay permit holder shall follow
the provisions of subsection 1, paragraphs "b" and "c", in
apportioning the tax due on a digital good, computer software,
or a service that will be concurrently available for use in
more than one jurisdiction.

5. Nothing in this section shall limit a person's
obligation for sales or use tax to this state in which the
qualifying purchases are concurrently available for use, or
limit a person's ability under local, state, federal, or
constitutional law, to claim a credit for sales or use taxes
legally due and paid to other jurisdictions.

Sec. 57. Section 423.20, subsection 1, paragraph j, Code
2005, is amended to read as follows:

j. "Postpaid calling service" means the telecommunications
service obtained by making a payment on a call-by-call basis
either through the use of a credit card or payment mechanism
such as a bank card, travel card, credit card, or debit card,
or by charge made to a telephone number which is not
associated with the origination or termination of the
telecommunications service. A "postpaid calling service"
includes a telecommunications service, except a prepaid
wireless calling service, that would be a prepaid calling
service except it is not exclusively a telecommunications
service.

27 31 Sec. 58. Section 423.20, subsection 1, Code 2005, is
27 32 amended by adding the following new paragraph after paragraph
27 33 k, and relettering the remaining paragraphs:
27 34 NEW PARAGRAPH. 1. "Prepaid wireless calling service"
27 35 means a telecommunications service that provides the right to
28 1 utilize mobile wireless service as well as other
28 2 nontelecommunications services, including the download of
28 3 digital products delivered electronically, content and
28 4 ancillary services, which must be paid for in advance and that
28 5 is sold in predetermined units or dollars of which the amount
28 6 declines with use in a known amount.

28 7 Sec. 59. Section 423.20, subsection 2, paragraph c,
28 8 subparagraphs (1) and (3), Code 2005, are amended to read as
28 9 follows:

28 10 (1) A sale of mobile telecommunications services other
28 11 than air-to-ground radiotelephone service, ~~or prepaid calling~~
28 12 ~~service, or prepaid wireless calling service~~ is sourced to the
28 13 customer's place of primary use as required by the federal
28 14 Mobile Telecommunications Sourcing Act.

28 15 (3) A sale of prepaid calling service or a sale of prepaid
28 16 wireless calling service is sourced in accordance with section
28 17 423.15. However, in the case of a sale of ~~mobile~~
28 18 ~~telecommunications services that is a prepaid~~
28 19 ~~telecommunications a prepaid wireless calling service~~, the
28 20 rule provided in section 423.15, subsection 1, paragraph "e",
28 21 shall include as an option the location associated with the
28 22 mobile telephone number.

28 23 Sec. 60. Section 423.45, subsection 4, paragraph b, Code
28 24 2005, is amended to read as follows:

28 25 b. The sales tax liability for all sales of tangible
28 26 personal property and all sales of services is upon the seller
28 27 and the purchaser unless the seller takes ~~in good faith~~ from
28 28 the purchaser a valid exemption certificate stating under
28 29 penalty of perjury that the purchase is for a nontaxable
28 30 purpose and is not a retail sale as defined in section 423.1,
28 31 or the seller is not obligated to collect tax due, or unless
28 32 the seller takes a fuel exemption certificate pursuant to
28 33 subsection 5. If the tangible personal property or services
28 34 are purchased tax free pursuant to a valid exemption
28 35 certificate ~~which is taken in good faith by the seller~~, and
29 1 the tangible personal property or services are used or
29 2 disposed of by the purchaser in a nonexempt manner, the
29 3 purchaser is solely liable for the taxes and shall remit the
29 4 taxes directly to the department and sections 423.31, 423.32,
29 5 423.37, 423.38, 423.39, 423.40, 423.41, and 423.42 shall apply
29 6 to the purchaser.

29 7 Sec. 61. Section 423.45, subsection 4, paragraph d, Code
29 8 2005, is amended by striking the paragraph and inserting in
29 9 lieu thereof the following:

29 10 d. The protection afforded a seller by paragraph "b" does
29 11 not apply to a seller who fraudulently fails to collect tax or
29 12 to a seller who solicits purchasers to participate in the
29 13 unlawful claim of an exemption.

29 14 Sec. 62. Section 423.51, subsection 2, Code 2005, is
29 15 amended to read as follows:

29 16 2. Sellers that follow the requirements of this section
29 17 are relieved from any tax otherwise applicable if it is
29 18 determined that the purchaser improperly claimed an exemption
29 19 and that the purchaser is liable for the nonpayment of tax.
29 20 This relief from liability does not apply to a seller who
29 21 ~~fraudulently does any of the following:~~

29 22 a. Fraudulently fails to collect the tax or solicits tax.

29 23 b. Solicits purchasers to participate in the unlawful
29 24 claim of an exemption.

29 25 c. Accepts an exemption certificate when the purchaser
29 26 claims an entity-based exemption when the following conditions
29 27 are met:

29 28 (1) The subject of the transaction sought to be covered by
29 29 the exemption certificate is actually received by the
29 30 purchaser at a location operated by the seller.

29 31 (2) The state provides an exemption certificate that
29 32 clearly and affirmatively indicates that the claimed exemption
29 33 is not available in the state.

29 34 d. Accepts an exemption certificate claiming multiple
29 35 points of use for tangible personal property other than
30 1 computer software for which an exemption claiming multiple
30 2 points of use is acceptable under section 423.18.

30 3 Sec. 63. Section 423.51, Code 2005, is amended by adding
30 4 the following new subsections:

30 5 NEW SUBSECTION. 3. a. A seller otherwise obligated to
30 6 collect tax from a purchaser is relived of that obligation if

30 7 the seller obtains a fully completed exemption certificate or
30 8 secures the relevant data elements of a fully completed
30 9 exemption certificate within ninety days after the date of
30 10 sale.
30 11 b. If the seller has not obtained an exemption certificate
30 12 or all relevant data elements as provided in paragraph "a",
30 13 the seller may, within one hundred twenty days after a request
30 14 for substantiation by the department, either prove that the
30 15 transaction was not subject to tax by other means or obtain a
30 16 fully completed exemption certificate from the purchaser,
30 17 taken in good faith.
30 18 c. Nothing in this subsection shall affect the ability of
30 19 the state to require purchasers to update exemption
30 20 certificate information or to reapply with the state to claim
30 21 certain exemptions.
30 22 d. Notwithstanding paragraphs "a", "b", and "c", a seller
30 23 is relieved of its obligation to collect tax from a purchaser
30 24 if the seller obtains a blanket exemption certificate from the
30 25 purchaser, and the seller and purchaser have a recurring
30 26 business relationship. For the purposes of this paragraph, a
30 27 recurring business relationship exists when a period of no
30 28 more than twelve months elapses between sales transactions.
30 29 The department may not request from the seller renewal of
30 30 blanket certificates or updates of exemption certificate
30 31 information or data elements when there is a recurring
30 32 business relationship between the purchaser and seller.
30 33 NEW SUBSECTION. 4. All relief that this section provides
30 34 to sellers is also provided to certified service providers
30 35 under this chapter.

31 1 Sec. 64. Section 423.52, Code 2005, is amended to read as
31 2 follows:

31 3 423.52 RELIEF FROM LIABILITY FOR SELLERS AND CERTIFIED
31 4 SERVICE PROVIDERS.

31 5 1. Sellers and certified service providers using databases
31 6 derived from zip codes or state or vendor provided address=
31 7 based databases are relieved from liability to this state or
31 8 its local taxing jurisdictions for having charged and
31 9 collected the incorrect amount of sales or use tax resulting
31 10 from the seller or certified service provider relying on
31 11 erroneous data provided by this state on tax rates,
31 12 boundaries, or taxing jurisdiction assignments. If this state
31 13 provides an address-based system for assigning taxing
31 14 jurisdictions ~~whether or not pursuant to the federal Mobile~~
31 15 ~~Telecommunications Sourcing Act~~, the director is not required
31 16 to provide liability relief for errors resulting from reliance
31 17 on the information provided by this state if the director has
31 18 given adequate notice, as determined by the governing board,
31 19 to affected parties of the decision to end this relief.

31 20 2. a. Model 2 sellers and certified service providers are
31 21 relieved of liability to Iowa for any failure to charge and
31 22 collect the correct amount of sales or use tax if this failure
31 23 results from the model 2 seller's or the certified service
31 24 provider's reliance upon this state's certification to the
31 25 governing board that Iowa has accepted the governing board's
31 26 certification of a piece of software as a certified automated
31 27 system. The relief provided by this paragraph to a model 2
31 28 seller or certified service provider does not extend to a
31 29 seller or provider who has incorrectly classified an item or
31 30 transaction into the product-based exemptions portion of a
31 31 certified automated system. However, any model 2 seller or
31 32 certified service provider who has relied upon an individual
31 33 listing of items or transactions within a product definition
31 34 approved by the governing board or Iowa may claim the relief
31 35 allowed by this paragraph.

32 1 b. If the department determines that an item or
32 2 transaction is incorrectly classified as to its taxability,
32 3 the department shall notify the model 2 seller or certified
32 4 service provider of the incorrect classification. The model 2
32 5 seller or certified service provider shall have ten days to
32 6 revise the classification after receipt of notice of the
32 7 determination. Upon expiration of the ten days, the model 2
32 8 seller or certified service provider shall be liable for the
32 9 failure to collect the correct amount of sales or use taxes
32 10 due and owing to the member state.

32 11 Sec. 65. EFFECTIVE DATES.

32 12 1. Except as provided in subsection 2, this division of
32 13 this Act takes effect January 1, 2008.

32 14 2. The sections of this division of this Act amending
32 15 section 423.45, subsection 4, being deemed of immediate
32 16 importance, take effect upon enactment.

32 17 EXPLANATION

32 18 DIVISION I == TAX ADMINISTRATION AND POLICY. Code section
32 19 15E.193B is amended to state that replacement tax credit
32 20 certificates for the eligible housing investment tax credit
32 21 when transferred are to be issued by the department of revenue
32 22 instead of being issued by the department of economic
32 23 development.
32 24 Code sections 68A.102, 257.21, 422.10(4), 422.12C(1) and
32 25 (2), and 422D.2 are amended to state that all nonrefundable
32 26 income tax credits are subtracted in determining the Iowa
32 27 individual income tax liability.
32 28 Code section 404A.4 is amended to state that replacement
32 29 tax credit certificates for the historic preservation and
32 30 cultural and entertainment district tax credit when
32 31 transferred are to be issued by the department of revenue
32 32 instead of being issued by the state historic preservation
32 33 office of the department of cultural affairs.
32 34 Code section 421.17(14) is amended to delete the
32 35 requirement that the director of revenue publish in pamphlet
33 1 form the revenue laws of the state and distribute them to
33 2 county auditors, assessors, and boards of review.
33 3 Code section 422.5(1)(j) is amended to state that all
33 4 checkoffs and all tax credits are not affected by the
33 5 allocation of income available to resident shareholders of S
33 6 corporations.
33 7 Code sections 422.5(1)(k), 422.5(2), and 422.9(1) are
33 8 amended to strike the reference to unmarried heads of
33 9 household since there are instances when heads of household
33 10 can be married.
33 11 Code section 422.6 is amended to state that all
33 12 nonrefundable credits are subtracted in determining the Iowa
33 13 fiduciary income tax.
33 14 Code section 422.7(21) is amended to strike the reference
33 15 to employed in a business for purposes of the capital gains
33 16 exclusion from income tax since such employment is already an
33 17 element in the material participation test under section
33 18 469(h) of the Internal Revenue Code.
33 19 Code section 422.10 is amended to provide a reference to
33 20 the additional research activities credit authorized pursuant
33 21 to Code section 15.335.
33 22 Code section 422.11 is amended to state that credits
33 23 allowed under Code section 422.12B are subtracted before
33 24 determining the franchise tax credit.
33 25 Code sections 422.11B, 422.33(7), 422.60(2), and 422.60(3)
33 26 are amended to eliminate references to sections of the
33 27 Internal Revenue Code relating to the alternative minimum tax
33 28 which have been repealed.
33 29 Code section 422.11F is amended to state that the
33 30 investment tax credit relates to investments in a qualifying
33 31 business or a community-based seed capital fund and adds a
33 32 reference to the investment tax credits authorized pursuant to
33 33 Code sections 15.333 and 15E.193B(6).
33 34 New Code section 422.11M provides a reference to the tax
33 35 credit for investments in the Iowa fund of funds authorized
34 1 pursuant to Code section 15E.66.
34 2 Code section 422.12(3) is amended to provide the same
34 3 definition for a married individual as set forth in section
34 4 7703 of the Internal Revenue Code.
34 5 Code sections 422.12A and 422.12F are amended to correct
34 6 references to the department of revenue reorganization due to
34 7 the creation of the department of administrative services.
34 8 New Code sections 422.12G and 422.12H provide references to
34 9 the income tax checkoffs for the Iowa election campaign fund
34 10 and the state fish and game protection fund.
34 11 Code section 422.33(5) is amended to provide references to
34 12 the alternative research activities credit authorized pursuant
34 13 to Code section 15A.9(8) and the additional research
34 14 activities credit authorized pursuant to Code section 15.335.
34 15 Code section 422.33(12) is amended to state that the
34 16 investment tax credit relates to investments in a qualifying
34 17 business or a community-based seed capital fund and adds
34 18 references to the investment tax credits authorized pursuant
34 19 to Code sections 15.333, 15A.9(4), and 15E.193B(6).
34 20 Code sections 422.33 and 422.60 are amended to add new
34 21 subsections to refer to the tax credits for certain sales
34 22 taxes paid by a third-party developer authorized pursuant to
34 23 Code section 15.331C, and the tax credit for investments in
34 24 the Iowa fund of funds authorized pursuant to Code section
34 25 15E.66.
34 26 Code section 422.34A is amended to provide that a
34 27 corporation is not doing business in the state for purposes of
34 28 the corporate income tax solely because of its ownership of a

34 29 distribution facility or property at the facility if retail
34 30 sales of tangible personal property or returns of such
34 31 property are not undertaken more than 12 days a year except in
34 32 the case of processing of customer sales orders done by mail,
34 33 telephone, or electronic means. In addition, 75 percent of
34 34 the dollar amount of goods sold through the facility must be
34 35 sold to customers outside of the state.

35 1 Code section 422.60(5) is amended to state that the
35 2 investment tax credit relates to investments in a qualifying
35 3 business or a community-based seed capital fund and adds
35 4 references to the investment tax credits authorized pursuant
35 5 to Code sections 15.333 and 15E.193B(6).

35 6 Code section 423.3(18) is amended to exempt the sale of
35 7 tangible property and services to home and community-based
35 8 service providers certified to offer Medicaid waiver services
35 9 by the department of human services.

35 10 Code section 423.3(39), relating to the sales tax exemption
35 11 for casual sales, is amended to include as a casual sale the
35 12 sale of tangible property or the furnishing of a service which
35 13 is recurring if the seller is not in the business of selling
35 14 or furnishing services and the total gross receipts from these
35 15 recurring sales and services do not exceed \$1,000.

35 16 Code section 423.3(50) is amended to exempt from tax the
35 17 sale of fuel consumed in the process of generating electric
35 18 current.

35 19 Code section 423.3(86) is amended to alter the exemption
35 20 from the sales and use taxes of repair services performed on
35 21 certain river vessels enacted during the 2005 Legislative
35 22 Session. The amendment eliminates the condition that the
35 23 vessel is not to be moored or tied to a physical location in
35 24 this state. The amendment also defines, for purposes of the
35 25 exemption, "vessel" as including a ship, barge, or other
35 26 waterborne vessel.

35 27 Code section 423.6 is amended to establish that the
35 28 exempted purchase price of a vehicle withdrawn from a motor
35 29 vehicle dealer's inventory to be used as a replacement for a
35 30 motor vehicle that was registered and the tax was paid at the
35 31 time of registration is the fair market value of the replaced
35 32 vehicle. This has the effect of allowing a trade of the
35 33 registered motor vehicle against the value of the new motor
35 34 vehicle to be used in determining the price subject to the use
35 35 tax. All the criteria must be met in order to compute the
36 1 fair market value subject to use tax of the new motor vehicle.

36 2 Code section 423.33(3) is amended to specify how the casual
36 3 sales tax exemption would apply to a person sponsoring a sales
36 4 event.

36 5 Code section 423.37(2) is amended to allow the department
36 6 of revenue to use various sampling techniques to establish the
36 7 amount of tax due for a sales or use tax return.

36 8 Code section 427.1(2) is amended to expand the exemption
36 9 from property taxation of property owned by a city or county
36 10 to include property which is located at an airport and leased
36 11 to a fixed base operator providing aeronautical services to
36 12 the public.

36 13 Code section 427.1(21A) is amended to require that a
36 14 nonprofit organization requesting a property tax exemption for
36 15 providing low-rent housing for the 2007 and subsequent
36 16 assessment years file a claim for exemption with the assessor.
36 17 Upon approval of the claim, further filing is not required.

36 18 Code section 427A.1 is amended to provide that equipment
36 19 used in washing, waxing, drying, and vacuuming motor vehicles
36 20 is not to be assessed and taxed as real property. This
36 21 amendment takes effect upon enactment and applies
36 22 retroactively to assessment years beginning on or after
36 23 January 1, 2006.

36 24 Code section 432.12C is amended to state that the
36 25 investment tax credit relates to investments in a qualifying
36 26 business or a community-based seed capital fund and adds a
36 27 reference to the investment tax credits authorized pursuant to
36 28 Code sections 15.333A and 15E.193B(6).

36 29 New Code sections 432.12H and 432.12I provide references to
36 30 the tax credit for certain sales taxes paid by a third-party
36 31 developer authorized pursuant to Code section 15.331C, and the
36 32 tax credit for investments in the Iowa fund of funds
36 33 authorized in Code section 15E.66.

36 34 Code section 441.38(2) is amended to require a taxpayer to
36 35 file a notice of appeal to the district court with the local
37 1 board of review and with the secretary of the property
37 2 assessment appeal board after the filing of the notice of
37 3 appeal with the district court.

37 4 Code section 533.24 is amended to add new subsections to

37 5 provide references to the investment tax credit authorized
37 6 pursuant to Code section 15.333, the tax credit for certain
37 7 sales taxes paid by a third-party developer authorized
37 8 pursuant to Code section 15.331C, and the tax credit for
37 9 investments in the Iowa fund of funds authorized pursuant to
37 10 Code section 15E.66.
37 11 2005 Iowa Acts, ch. 140, section 72, relating to the amount
37 12 of refunds that may be claimed in the aggregate as a result of
37 13 the retroactive exemption from sales tax of drainage tile
37 14 materials, is amended to increase the aggregate amount of
37 15 refunds from \$25,000 to \$50,000.
37 16 DIVISION II == STREAMLINED SALES AND USE TAX UPDATES. This
37 17 division updates the references to the Iowa sales and use tax
37 18 law as implemented by the streamlined sales and use tax
37 19 agreement (agreement). There were a number of amendments to
37 20 the agreement which need to be included in the sales and use
37 21 tax laws.
37 22 Code section 423.2(8) is amended to reflect a revision to
37 23 the bundled transaction provision. A bundled transaction
37 24 involves the sale of two or more products which are distinct
37 25 and identifiable, and the products are sold for one
37 26 nonitemized price.
37 27 Code section 423.18 is amended to reflect a revision to the
37 28 multiple points of use provision. The revision provides that
37 29 a business purchaser of digital goods, software, or a service
37 30 that will be used in more than one jurisdiction is to deliver
37 31 to the seller an exemption certificate claiming multiple
37 32 points of use. Upon receipt of this certificate, the seller
37 33 is relieved of collecting tax and the purchaser must pay tax
37 34 on an apportionment basis. If the purchaser does not have the
37 35 certificate, then the purchaser and seller will jointly arrive
38 1 at the apportionment.
38 2 Code sections 423.20(1) and 423.20(2) are amended to add
38 3 new provisions related to prepaid wireless calling service and
38 4 the method of sourcing such service. Prepaid wireless calling
38 5 service is a telecommunications service that provides the
38 6 right to utilize mobile wireless service as well as other
38 7 nontelecommunications services, including the download of
38 8 digital products delivered electronically which are paid for
38 9 in advance and sold in predetermined units which decline upon
38 10 use.
38 11 Code section 423.45(4) is amended to conform the exemption
38 12 certificate requirements for all retailers to the requirements
38 13 for retailers registered under the agreement. The amendments
38 14 are effective upon enactment.
38 15 Code section 423.51(2) is amended to add new provisions to
38 16 the requirements related to exemption certificates. These
38 17 provisions relate to the seller's loss of nonliability for
38 18 collection of tax if the seller accepts an exemption
38 19 certificate at the seller's business and the state has
38 20 affirmatively indicated that the claimed exemption is not
38 21 available in the state; and if the seller accepts an exemption
38 22 certificate claiming multiple points of use of tangible
38 23 personal property for which the multiple points of use
38 24 exemption provisions of a different Code section apply.
38 25 Code sections 423.51 and 423.52 are amended to include new
38 26 provisions related to the various types of relief available to
38 27 sellers. These provisions include relief for reliance on the
38 28 certification of the seller's software and classification of
38 29 an item under the taxability matrix.
38 30 The division of the bill takes effect January 1, 2008,
38 31 except for the provisions amending Code section 423.45, which
38 32 take effect upon enactment.
38 33 LSB 6655HC 81
38 34 mg:nh/cf/24